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RUEHNK/AMEMBASSY NOUAKCHOTT PRIORITY 0883  
RUEHFR/AMEMBASSY PARIS PRIORITY 1772  
RUEHRB/AMEMBASSY RABAT PRIORITY 8396  
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C O N F I D E N T I A L SECTION 01 OF 02 TUNIS 000758

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STATE FOR NEA/MAG (HARRIS)  
STATE PASS USTR (BELL), USPTO (ADLIN AND ADAMS), USAID  
(MCCLOUD)  
USDOC FOR ITA/MAC/ONE (NATHAN MASON), ADVOCACY CTR (JAMES),  
AND CLDP (TEJTEL)  
CASABLANCA FOR FCS (ORTIZ)  
LONDON AND PARIS FOR NEA WATCHER

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TAGS: [EFIN](#) [EINV](#) [ECON](#) [ETRD](#) [TS](#)  
SUBJECT: CENTRAL BANK GOVERNOR OUTLINES REFORM AGENDA

REF: 06 TUNIS 2848

Classified By: Classified by Ambassador Robert F. Godec for Reasons 1.4  
(b) and (d)

11. (SBU) SUMMARY. During Ambassador's June 7 courtesy call, Central Bank (BCT) Governor Taoufik Baccar emphasized the importance of the BCT in shaping GOT economic policy and outlined his agenda for reform. Baccar is currently pursuing reform in three main areas: monetary policy, banking, and currency convertibility. The 2006 addition of inflation targeting to the BCT's mandate has necessitated monetary policy reform. Banking sector reform continues to focus on improving bank governance and reducing non-performing loan (NPL) rates. Baccar did not provide a timeline for full dinar convertibility, but rather indicated that full convertibility could only occur after monetary policy and banking sector reform were complete. END SUMMARY.

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Monetary Policy  
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12. (SBU) Baccar began the meeting by stressing the important role the BCT plays in shaping GOT economic policy and noting that the BCT was instrumental in ending the cooperative system and pushing for a liberal, market-based economic policy. (NOTE: During the 1960s, the GOT created cooperative farms, which were not economically viable or popular among Tunisians. The cooperative system ended in 1970. END NOTE.) Baccar is currently pursuing three main areas of reform: monetary policy, banking, and currency convertibility. A 2006 amendment to the legislation governing the BCT added responsibility for inflation targeting to the BCT, necessitated The BCT created a Director General for Monetary Policy and has received IMF training on inflation targeting. In response to 2006's rising inflation (4.5 percent), the BCT raised reserve requirements and interest rates. Baccar stated that inflation for the first 5 months of 2007 was 2.3 percent.

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## Banking

13. (SBU) Baccar stated that the banking sector needs to be strengthened, but that reform is underway. Baccar acknowledged that the rate of non-performing loans remains high (Reftel), but that it is declining. He said that in June 2004 the rate of NPLs was 25 percent, but dropped to 19 percent by December 2006. He added that the BCT is targeting a decline in NPLs to 15 percent by 2009 and 11 to 12 percent by 2011. (NOTE: The BCT provided similar targets two years ago, but did not match these expectations. END NOTE.) In order to improve bank governance, the BCT will require banks to create committees for auditing and compliance. In addition, Baccar aims to increase banks' freedom of action by eliminating many of the BCT authorizations currently required prior to any bank action.

## Dinar Convertibility

14. (C) When asked by the Ambassador whether the currency would be fully convertible in 2009, as previously announced, Baccar did not provide a timeline but indicated that monetary policy and banking sector reform were preconditions for full convertibility of the dinar. He stated that prior to full convertibility the rate of NPLs in the banking sector should be below 12 percent and the exchange rate should be flexible. He noted, however, that the BCT rarely intervenes in the exchange market. (COMMENT: Baccar's refusal to provide a date appears to confirm speculation that the GOT will push back the date for full convertibility to 2011. END COMMENT.)

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Baccar told the Ambassador that the law for currency exchange is currently being revised and will make BCT authorization an exception for capital transactions. The revision will also institute an exchange amnesty that will allow Tunisians with currency held abroad to repatriate their funds in convertible accounts.

## Biographical Note

15. (C) Governor Baccar, along with Minister Mohamed Nouri Jouini and Prime Minister Mohamed Ghannouchi, is one of the most important GOT officials on economic policy. During the meeting, Baccar was relaxed and informal. He displayed an excellent and ready command of details and statistics, reflecting his academic background and experience in economics and finance. Although the BCT falls under the Ministry of Finance, Baccar's influence is far greater than that of Minister of Finance Mohamed Rachid Kechich and rivals that of Jouini. On several occasions MDIC and Central Bank statistics cited by Baccar and Jouini have differed, suggesting that the relationship between the two institutions is not always cooperative. Baccar previously served as Minister Finance and noted that serving as BCT Governor differed from his time "in the government." He additionally highlighted the BCT's independence, suggesting that Baccar is relatively unfettered by the political considerations that inhibit many GOT ministers.

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